

VZCZCXRO1140  
OO RUEHCN RUEHGH RUEHVC  
DE RUEHBJ #1500/01 1560440  
ZNR UUUUU ZZH  
O 050440Z JUN 09  
FM AMEMBASSY BEIJING  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4313  
INFO RUEHOO/CHINA POSTS COLLECTIVE  
RUEHBUL/AMEMBASSY KABUL 0606  
RUEHGV/USMISSION GENEVA 2492  
RHMFIUU/DEPT OF ENERGY WASHINGTON DC  
RHEHNSC/NSC WASHDC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUCPDOG/USDOC WASHDC

UNCLAS SECTION 01 OF 05 BEIJING 001500

SENSITIVE  
SIPDIS

STATE FOR H/BETSY FITZGERALD, EAP/CM SHAWN FLATT,  
EEB/TPP ERIK MAGDANZ, SCA/RA JOHN SPILSBURY  
STATE PASS USTR FOR TIM STRATFORD, CLAIRE READE,  
AUDREY WINTER, TIM WINELAND, TERRY MCCARTIN, ANN  
MAIN, JEAN GRIER  
DOC FOR IRA KASOFF, NICOLLE MELCHER (5130), MAC  
(4420)  
TREASURY FOR OASIA/ROBERT DOHNER  
USDA FOR FAS OCRA/RADLER SHEPPARD PAULSON  
USDOE FOR INTERNATIONAL/JONATHAN SHRIER  
GENEVA PASS USTR

E.O. 12958: N/A  
TAGS: [ETRD](#) [EFIN](#) [EAGR](#) [ECON](#) [PREL](#) [MCAP](#) [WTRO](#) [CH](#) [AF](#)

SUBJECT: CONGRESSMEN KIRK AND LARSEN'S MEETING WITH MINISTER OF  
COMMERCE CHEN DEMING

REFS: A.) Beijing 1434 B.) Beijing 1473

(U) This cable is Sensitive But Unclassified. Please protect  
accordingly.

¶1. (SBU) Summary: Congressmen Mark Kirk and Rick Larsen met with  
Minister of  
Commerce Chen Deming May 31 under the auspices of a National  
Committee on U.S.-  
China Relations visit. Chen praised the legislators' work as  
Co-Chairs of the  
Congressional U.S.-China Working Group. Chen observed that the  
Global Financial  
Crisis heightened the need for both nations to work together to  
"recover sooner" and  
the crisis also raised the stakes for 2009 Strategic and Economic  
Dialogue (S&ED) and  
Joint Commission on Commerce and Trade (JCCT) outcomes. Chen  
confirmed to  
Congressman Kirk that China was considering a U.S. proposal to allow  
transit of food  
and fuel to Afghanistan via western China to help thwart  
narco-terrorism. Chen also  
told Kirk that he would consult the Ministry of Industry and  
Information Technology  
(MIIT) on a longer phase-in period for a new non-PVC regulatory  
requirement for  
intravenous (IV) bags used in hospitals, which affects Baxter Health  
Care in China.  
Chen expressed some concern over the U.S. inflation rate and fiscal  
policy and  
discussed China's rationale for purchasing U.S. Treasury bills and  
the global economic  
recovery.

¶2. (SBU) Summary Continued: Responding to Congressman Larsen on  
China's new  
National Postal Law, Chen indicated China was not obliged to open up  
domestic  
document delivery services to foreign companies under the terms of

its WTO

commitments. With respect to China's ban on U.S. pork imports, Chen said the policy is based partly on concerns about animal-animal transmission, but it could be revised as new information comes to light. He stated that while China finds the Section 727 U.S. ban on Chinese cooked poultry imports discriminatory and unfair, MOFCOM is still deciding whether to bring a WTO case. Chen urged that the JCCT's High Technology Working Group be revived. Embassy will report other delegation meetings (Ref B and septel ). End Summary.

Chen Deming: Macro and Micro Issues Raised

13. (SBU) After listening to Congressmen Rick Larsen and Mark Kirk's presentations, Chen Deming praised their "division of labor". He noted that Larsen had taken up primarily "macro issues" -- U.S.-China relations, planning for the S&ED and JCCT, and sectoral trade topics including China's new National Postal Law, China's ban on U.S. pork imports, status of China's WTO government procurement offer, and high technology trade. Meanwhile, Congressman Kirk had covered mainly "micro issues" -- a U.S. proposal for China to allow transit of food and fuel to Afghanistan, and a request

BEIJING 00001500 002 OF 005

for longer phase-in time for a new Ministry of Industry and Information Technology (MIIT) regulation requiring non-PVC IV bags, which would affect Baxter Health Care's operations in China.

Kirk: Afghanistan Supply Proposal, MIIT Regulations on IV Bags

14. (SBU) Regarding issues Congressman Kirk raised, Chen said China would give "earnest study" to the proposal for China act as a supplier of food and fuel to Afghanistan via Western China to help thwart narco-terrorism in the region. Chen understood that the Ministry of Foreign Affairs (MFA) had already provided a response to the U.S. and was awaiting feedback. Regarding a new MIIT regulation concerning IV bags, Chen stated the issue was new to him and Kirk's mention of it was the first he had heard of it. He said that while he lacked requisite technical knowledge, if additional time for phasing in a new regulation would help preserve employment in China and made economic sense, this would seem to be good. Chen promised to discuss the issue with MIIT and convey U.S. views contained in a paper Congressman Kirk presented. (Note: USG officials have raised this issue at a sub-Ministerial level in the past with MOFCOM. End Note.)

Chen: Preparations for S&ED and JCCT On Track

15. (SBU) Turning to issues raised by Congressman Larsen, with respect to the S&ED and JCCT, Chen agreed that the overall U.S.-China relationship was more valuable than just the "sum of its parts". He reported that his recent meetings with National Economic Council Chair Summers and Secretary Locke and Ambassador Kirk in Washington went well. Chen foresaw the S&ED retaining a "macro and

strategic focus"  
while the JCCT should be "concrete and detailed" and said that Secretary Locke shared this view. Chen noted with enthusiasm Locke's plans for a visit to China with Energy Secretary Chu later this year. He spoke favorably of Chu's status as a Chinese-American and Nobel laureate, claiming Chu's family hailed from Suzhou, where Chen had once been mayor. Chen hoped the U.S. and China would "not quarrel" at the upcoming S&ED and JCCT, but rather identify new areas for cooperation -- such as clean energy and responding to climate change. He urged that the JCCT be scheduled prior to President Obama's participation in the APEC Leaders Summit in Singapore in November.

National Postal Law: China Did Not Agree to Open Domestic Document Delivery in WTO Accession

16. (SBU) Regarding concerns raised by Congressman Larsen over China's new National Postal Law that bars qualified U.S. and foreign firms from offering domestic document delivery services, Chen noted that he had relayed U.S. points on

BEIJING 00001500 003 OF 005

this to the NPC. Looking at China's WTO accession agreement, China had not committed to open up this service area to foreign suppliers and no subsequent legislation or proposals had been offered to do so. In fact, "domestic delivery of letters" was just a "tiny part" of the market with "almost no impact" on the international business of the foreign express service providers. At any rate, Chen offered to pass along Larsen's concerns to relevant authorities so that they would consider them when formulating implementing rules.

Ban on U.S. Pork Imports Aimed at Protecting Humans and Pigs

17. (SBU) With respect to China's ban on the import of U.S. pork, Chen told Larsen that China had banned not just U.S. pork but also imports from other H1N1-affected countries including Mexico and Canada. He asserted that China's ban affected only pork imports from U.S. states where H1N1 had been reported. Chen said Secretary Locke and Ambassador Kirk had tried unsuccessfully to call him after his return from the U.S. in May, but he did receive a call from Canadian Agriculture Minister Day on the same topic. He noted that China was acting not just for the health of China's human population, but also to protect its population of one billion pigs. Pig-pig transmission of H1N1 had occurred; other types of transmission (animal-human) were harder to confirm. China's H1N1 policy was always subject to revision based on changes in views of experts at the world organization for animal health (OIE) and the World Health Organization (WHO) as well as other new sources of information.

Section 727: Considering WTO Case, "Good Chance" of Winning

18. (SBU) Chen assured Larsen and Kirk that China's policy on H1N1 had nothing to do

with retaliation for the U.S. ban on cooked poultry imports stipulated under Section 727 of the 2009 Omnibus Appropriations Act. Nevertheless, China strongly disagreed with Section 727 and found it to be unfair and discriminatory toward China. "WTO experts" in Geneva had informed Chen that China had a "very good chance" of prevailing at the WTO if a case were brought on the matter. But since doing so required 1-2 years of litigation and entailed a significant financial and resource cost, Chen was still "thinking about whether [MOFCOM] should do it" or take some other route.

#### Government Procurement: China Has Tabled a Revised Offer

¶9. (SBU) Regarding China's accession to the WTO Government Procurement Agreement, Chen stated that China had tabled a new offer to the U.S. and other GPA parties but was still waiting for a reply. [Note: Geneva 00400 dated May 29 indicates that as of the May meeting of the WTO Government Procurement

BEIJING 00001500 004 OF 005

Committee, China had not yet indicated when it will present a revised GPA offer.] In any case, Chen continued, the U.S. should bear in mind during negotiations that China is still a developing country and therefore "the bar should not be set too high". He added that some U.S. states had still not signed on to the GPA requirements and/or had taken exceptions for products including steel.

#### Export Controls, JCCT High Technology Working Group

¶10. (SBU) Chen emphasized to Larsen that on high-tech trade, much could be done to narrow the U.S.-China trade deficit by loosening up U.S. export control requirements, a view which he maintained was backed up by AmCham China's White Paper. In 2007, the U.S. and China signed a new Verified End User (VEU) Program administered by the Department of Commerce to streamline U.S. high tech export controls. Nevertheless, there were still only a handful of VEUs approved, and all were foreign-invested entities. The situation was unfair to U.S. high tech exporters, as most items subject to export controls were easily available to China from other suppliers (such as France) or could even be produced in China. Chen agreed with Larsen that the JCCT High Tech Working Group, which last met in 2007, should be revived.

#### Chen's Views on Investing in T-Bills, Global Recovery

¶11. (SBU) Congressman Kirk stated that actions taken by "two state-owned enterprises, Fannie Mae and Freddie Mac" had helped spark the financial crisis in the U.S. China should not conclude from the crisis that a poorly regulated U.S. private sector was the cause. Rather, the crisis was caused by a Congress that had not acted to properly regulate these state-owned enterprises. He also stated that the Administration's projection of the U.S. budget deficit is well below what it will really be, since at year-end Congress will inevitably go beyond the spending levels already

projected. Finally, he stated that high levels of government spending in the U.S. and Europe would likely produce 4-5 years of low growth and high-inflation, and China should take this into account when planning its investments, including in U.S. Treasury bonds.

¶12. (SBU) In response, Chen offered his views on China's purchase of U.S. Treasury bills as a means to invest its U.S. trade surplus. Chen said China "must" buy U.S. Treasuries because insufficient depth exists in Japanese yen- and Euro-denominated debt. If China were to make larger purchases in these markets, it might raise their prices dramatically. In addition, as total worldwide gold production is only 2400 tons per year, it would be impossible for China to purchase sufficient gold reserves. "So the only way for China is to continue to buy T-bills," he concluded. As a result, China was

BEIJING 00001500 005 OF 005

interested in matters such as U.S. government spending, the U.S. inflation outlook, and the printing of dollars by the Federal Reserve. Chen compared the current policy response to the Global Financial Crisis to firefighting -- no time to study the cause of the blaze, but it might be useful to do so in the future. In addition, Chen thought the current response involving stimulus spending must change if the crisis proves to be 3-5 years instead of one year. If that happens, countries would need to rethink what to do, he felt. We should avoid a "fake dawn" by thinking the crisis is past before it is truly over, he concluded.

¶13. (U) Participants:

(U) U.S. Participants:  
Honorable Rick Larsen, Co-Chair, U.S.-China Working Group  
Honorable Mark Kirk, Co-Chair, U.S.-China Working Group  
Stephen Orlins, President, National Committee on U.S.-China Relations  
Scott Kennedy, Associate Professor of Political Science, Indiana University  
Jasper MacSlarrow, Legislative Director for Congressman Larsen  
Richard Goldberg, Senior Aide to Congressman Kirk

(U) PRC Participants:  
Minister of Commerce Chen Deming  
Other MOFCOM officials

¶14. (U) Representatives Kirk and Larsen did not have the opportunity to clear this message before departing.

PICCUA